



Public payroll and productivity

Description

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The ongoing discussion concerning the abolition of the Cyprus economic adjustment programme-led law for the freezing of first-time appointments in the public sector, including local authorities, is crucial, taking into account the size of the public payroll and its broader impacts on productivity.

In 2024, the public payroll amounted to €3.7, billion compared to €2.7 billion in 2019, recording a sharp increase of 37%. Even more disturbingly, an upward trend has been noted, with the annual rate of increase expanding over the last three years, despite the existence of the “bailout-induced” legislation for a freeze on positions. The key driver has been increased recruitment, indicating that the freeze was, in practical terms, inactive. As set out below, the challenges of increased state payroll, from a long-term perspective, are particularly serious:

(a) It affects the long-term sustainability of public finances and limits the ability to finance productive and social spending, for the benefit of the vulnerable groups of the society.

(b) It impacts the efficient functioning of the state, due to the absence of prioritization of the recruitment framework based on strategic priorities.

(c) It limits the possibility of stimulating economic activity in periods of sluggish growth. Today, the Cyprus economy is prospering, allowing costs to be covered and inefficiencies

to be hidden. However, when the economic cycle turns (possibly due to exogenous factors or crises e.g. pandemics, tariffs, wars), the underlying realities and vulnerabilities will rise to the surface.

(d) Exacerbation of the problem of shortages of qualified personnel in specific areas of the private sector. While, currently, the Cyprus economy enjoys full employment conditions, certain sectors suffer from shortages of qualified personnel. Hiring more civil servants limits the pool of available personnel, further aggravating the problem.

Based on the above, it is imperative that personnel recruitment and the development of the public payroll be linked to a comprehensive reform, aimed at improving the productivity of the public sector. Indicatively, the following suggestions are listed:

1. Preparation of a strategic plan, involving an assessment of actual requirements and the setting of priorities for the benefit of those sectors that have a positive long-term contribution to modern societies, including the energy and technology transitions.
2. Encourage staff mobility, taking into account the established priorities.
3. Develop performance and productivity indicators which, to the extent possible, should be based on objective and measurable criteria, with the aim of rewarding productive civil servants. Such indicators could also be used to ensure that: (a) existing staff are efficient before new hires are added, and (b) new staff will contribute effectively towards the improvement of productivity.
4. Invest in automation-simplification technologies and process optimization, aiming at the reduction of the need for new hires, while limiting bureaucracy.
5. Implement a phased recruitment process, with the aim of facilitating the smooth integration of new staff, while distributing the impact of the relevant cost on the state budget over several years.
6. Introduce flexible employment contracts to meet the specific needs of the public service with safeguards to avoid permanent recruitment. The introduction of flexible contracts could allow adjustments to working hours, responsibilities and duration, based on changing economic conditions and the priorities of organizations, enabling short-term staff shortages to be covered while avoiding long-term financial commitments.
7. Encouraging public and private sector cooperation within a modern framework, which aims to safeguard the interests of the public and avoid abuses, especially in the case of large projects.
8. Simplification and flexibility in the state budget, with the aim of strengthening the responsibilities of line ministries, including transferring funds in order to benefit

priority sectors while, at the same time, increasing control and accountability mechanisms.

9. Consulting with interested parties, such as trade unions and industrialists' federations, and strengthening the mechanisms for informing citizens, aiming at transparency and creation of the necessary consensus.

In conclusion, the public sector's employment policy and the formation of the public payroll must be radically reformed, with the aim of increasing public productivity and, by extension, the competitiveness of our country. For this purpose, the relevant but unutilized studies carried out in the past by external and domestic consultants ought to be taken into account. The current process of unfreezing positions must be linked to such a comprehensive reform.

**Andreas Charalambous and Omiros Pissarides are economists and the opinions they express are personal.*